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# Taking Corporate Social Responsibility as Growth Strategy

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George Y. Wang

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## Abstract

Corporate social responsibility (CSR) has been of great interest to many practitioners and researchers. Although this topic has been in hot discussion for the past few decades, many concerns and debates remain. In recent years, increasing evidence has demonstrated that there exists a positive relationship between CSR and firm performance, which negates conventional thought that CSR is an unavoidable additional cost to a firm. In fact, CSR can facilitate a positive value of a firm from the perspectives of marketing, innovation, management, and ownership. Thus, this chapter argues that CSR should not merely serve for the window-dressing purpose, yet it should be incorporated into practical business operations and then become key corporate growth strategy as a firm grows in size.

**Keywords:** corporate social responsibility (CSR), corporate social performance, stakeholder, growth strategy

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## 1. Introduction

Ever since market economy becomes the dominant economic structure, maximizing shareholder wealth or corporate value has been the major corporate goal for management. The goal of value maximization describes that in the world of no agency cost, management would make the best corporate decisions in an attempt to maximize shareholder's wealth or corporate value. In the presence of managerial agency cost occurring to a firm, the goal of value maximization is compromised by agency cost due to management's self-interest [1]. Nevertheless, value maximization continues to serve as the top-priority corporate goal in the prominent economic system of market economy. Take, for example, the JX Group, the parent company of the largest petroleum firm in Japan, ENEOS. In their 2013 Annual Report, organizational restructure was explicitly strategized to aim at maximizing the corporate value of their group, which was described as the ultimate corporate goal.

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When the corporate goal of value maximization is formulated into a publicly listed firm, the goal is often extended to maximize stock price. Both corporate goals prevail over the other views of business philosophy in the current dominant market economy. More frequently, value maximization is referred to as the core concept of “shareholder capitalism.” In the classic principal-agent relationship between shareholders and management, shareholder capitalism protects the shareholder’s interest toward the firm, which is not explicitly described in the business contracts when dealing with management.

Although value maximization has been the major objective function of management for a long time, contrast to shareholder capitalism, the perspective of “stakeholder capitalism” has also gained significant votes of advocacy. The inception of this perspective can be traced back to Henry Ford’s time, in which he said, “there is one rule for the industrialist and that is: make the best quality of goods possible at the lowest cost possible, paying the highest wages possible.” Clearly, the stakeholders that Henry Ford was referring to were employees of a firm. According to Freeman [2], in the contemporary business world, stakeholders are spread out to “any group or individual who can affect or is affected by the achievement of the organization’s objectives.”

In recent years, a related concept to stakeholder capitalism, corporate social responsibility (CSR), has been of great interest not only to financial economists, but also to corporate practitioners. Although CSR has quite a variety of definitions,<sup>1</sup> the consensus is that corporate behavior can no longer be examined from the single dimension of value maximization. A firm is expected to take more responsibilities to the economy as well as to the society. That being said, corporate goals should be extended from enhancing corporate growth in value maximization to developing social growth. Carroll [4] proposes a pyramid model to describe these responsibilities, that is, economic, legal, social, and philanthropic, from bottom to top.

The infusion of CSR into corporate goal has become the new element to examine the performance of a modern business, yet the debate over CSR is still ongoing even recently. Take, for example, Milton Friedman’s famous argument. Friedman [5] argues that in a free economy, there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game. Apparently, Friedman defines that the goal for a firm is to fulfill its economic and legal responsibilities. By contrast, Carroll [4] proposes a pyramid model that management should aim to meet four levels of corporate social responsibilities, i.e., economic, legal, ethical, and philanthropic responsibilities. This model is clearly a more far-reaching extension than Friedman’s argument. Based on the agency theory, Jensen [6] contends that management’s self-interest cannot guarantee value maximization since corporate value will be offset by management’s agency cost should proper incentives not be provided. Hence, value maximization is still the major driving force in a market economy given that stakeholder’s interest is taken into account and that the trade-offs to compensate these interest are made on the condition that management is provided proper incentives. Recently, Porter and Kramer [7]

<sup>1</sup>According to Carroll [3], there are over 25 different ways to define CSR in the literature.

have proposed that a firm should make every effort to create shared value by taking the interest of all the stakeholders into account. Thus, CSR should be considered an important corporate strategy.

Along the line of CSR research, this chapter intends to take one more step by arguing that management's CSR mindsets can serve as a driving force for corporate growth. Thus, CSR is no longer a by-product, in addition to the fundamental legal and economic responsibilities of a firm, instead CSR becomes one of the key corporate growth strategies. In the rest of the chapter, we discuss CSR theories and dimensions, elaborate on approaches to CSR measurement, present evidence for the relationship between CSR and firm performance, and finally elucidate why CSR should be viewed as one of the key corporate growth strategies.

## **2. Theories of corporate social responsibility**

Since CSR has become a new focus in the theory of firm, researchers have attempted to formulate the CSR theory from different perspectives. Winsor [8] suggests that there are three major approaches to CSR: (1) ethical responsibility theory, which advocates strong corporate self-restraint and altruism duties to strengthen stakeholder rights; (2) economic responsibility theory, which argues that a firm aims to maximize its market wealth with the side effects of minimalist public policy and perhaps customary business ethics; and (3) corporate citizenship theory invokes a political metaphor providing neither true intermediate positioning nor theoretical synthesis.

Mele [9] considers the evolution of CSR studies and then summarizes four major CSR theories. The first one is based on corporate social performance (CSP), which is basically built on sociology. Sethi [10] discusses the dimensions of CSP, in terms of corporate behavior, can range from social obligation, then social responsibility, and social responsiveness. According to Wood [11], CSP means a change of corporate behavior from conventional value maximization to produce less harmful and more beneficial outcomes for the society and the people. Therefore, CSP is defined as the configuration in a firm, which includes the processes of response to social requirements, and the policies and programs reflecting the firm's relations with the society. According to Wood [12], the weaknesses of CSP theory are its vagueness in practical contents and its insufficient linkage between ethical normative aspects and business activities.

The second CSR theory is shareholder value theory (SVT), which has been the dominant view in financial economics. The SVT describes that corporate behavior should aim to maximize corporate profits in the short run and shareholder's wealth in the long run. In this definition, the CSR actions in a firm should be directed to fulfill its economic and legal responsibilities [5]. On the ground of the SVT, the impacts of corporate behavior and business activities on the society are out of consideration. In addition, the relationship between agents (management) and stakeholders is not fully addressed. Due to these weaknesses of SVT, Jensen [6] proposes a revised social value, although he still advocates value maximization in the corporate objective function.

In contrast to the SVT, the stakeholder theory takes into account the interest of all the stakeholders surrounding the company [13]. While shareholders certainly are an important group of stakeholders, other corporate stakeholders would include managers, nonmanagerial employees, suppliers, customers, communities, governments, and social and environmental groups. Another characteristic of the stakeholder theory is to achieve global sustainability, which is defined as the ability to meet the needs of the present without compromising the ability of future generations to meet their needs. It refers not only to a sustainable social and natural environment, but also to sustainable capitalism [14]. With regard to weaknesses of the stakeholder theory, Jensen [6] argues that the stakeholder theory is incomplete and unattainable due to its failure to provide appropriate incentives to management, in particular, in a market economy. Furthermore, should the stakeholder view be adopted in corporate policies and practices, it may become a legitimate excuse for management when he fails to meet social responsibilities as well as achieve value maximization [15].

The last CSR theory is to take a perspective of corporate citizenship (CC). Carroll [3] argues that a firm acting as a good corporate citizen should actively engage in acts or programs to promote human welfare or goodwill. In his famous pyramid model, corporate citizenship is considered to be philanthropic responsibilities, which “reflects global society’s expectations that business will engage in social activities that are not mandated by law nor generally expected of business in an ethical sense” [16]. Furthermore, Matten and Crane [17] and [18] suggest that CC can be seen as an extension that compensates the view that CSR is an external affair to a firm. In addition, CC also contributes to define the codes of ethical conduct in a firm. However, the usage of “citizenship” is a relatively narrowed definition with enforcement power to a firm with regard to fulfilling its social responsibilities. Also, CC implies legitimate obligations of a corporate citizenship, while the existing conceptual CC framework fails to address corporate rights in order to balance the requirements of citizenship [9].

Until recently, the CSR theories still continue to prosper from several theoretical aspects. Although the four theories are presented in an equal way, this does not mean that these theories are equally accepted by practitioners and academics. In general, CSP and CC are considered to be biased toward corporate responsibilities from the perspective of practitioners, yet the stakeholder theory, in general, gains more support from both researchers and practitioners. In short, the CSR theories are still fast developing and may be in debate in certain areas.

### **3. Dimensions and measurements of corporate social responsibility**

From the practical point of view, Carroll [3] defines CSR as four bottom-up responsibilities, that is, economic, legal, social, and philanthropic responsibilities. This definition clarifies the scope of CSR yet provides less practical implications in CSR contents and measurements. As societal expectation toward the fulfillment of CSR has become increasingly vocal in the global context, international institutions or organizations not only regard CSR as a new requirement of a responsible firm, but also take actions to evaluate corporate social performance. For instance, in 1999, Dow Jones, Stoxx, and Sustainability Asset Management Co. constructed the Dow Jones Sustainability World Indexes (DJSI World) and formulated evaluation criteria to



compute stock performance of selected socially responsible firms. The screening standards of DJSI World were built on a firm's contributions to economy, society, and environment. Now these three dimensions have become a popular operational framework for appraising corporate social performance (CSP). For example, Wang [19] proposes CSR to be a new approach to style investment, constructed a CSR index (CSRI) to form social funds, and finds that social funds could significantly outperform the market portfolio (index), yet still underperform the conventional value portfolio.

As mentioned earlier, among the four CSR theories, the stakeholder theory suggests that the interest of all the corporate stakeholders should be equally considered in the CSR. Freeman [2] defines stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives." According to Donaldson and Preston [20], corporate stakeholders include not only shareholders, managers, employees, suppliers, and customers, but also government, social groups, environment groups, and communities. Maignan and Ferrell [21] and Maignan et al. [22] argue that the implementation of CSR would enhance marketing advantages and reinforce corporate identity of stakeholders. In general, corporate stakeholders can be classified into primary and secondary stakeholders; the former stakeholders are referred to as those who engage in transactions with the firm, have influence on it, or are influenced by its decisions; the latter stakeholders are defined as those who have influence on the firm or are influenced by its decisions, but are not essential for its survival [23].

Along the ample CSR literature, one important line of research looks to examine the relationship between CSR and firm performance, frequently regarded as the CSR-performance puzzle. The empirical literature on the CSR-performance puzzle suggests inconclusive results; some studies find a positive relationship, while others report a negative or no relationship ([23], Ch. 17). For instance, Mahapatra [24] examines how external investors evaluate a firm's efforts on pollution prevention and suggested that external investors behave as rational economic investors instead of ethical investors, revealing that the high expenses of pollution prevention in a firm may harm its stock performance. McWilliams and Siegel [25] find that CSR has no significant influence on firm performance. By contrast, several studies (e.g., Refs. [22, 26–28]) find that the effects of CSR on the firm could be accumulated and reinforced positively in the long run, thus leading to a better firm performance.

Earlier research on the CSR-firm performance relationship is mostly based on qualitative approaches such as inferences, expert interviews, case studies, and survey studies. The major disadvantage for this line of CSR research is that qualitative methodology tends to be somewhat arbitrary when drawing managerial implications. In addition, CSR literature thus far finds less strong empirical support in measuring a firm's contributions to CSR and thus in finding statistically significant conclusions.

Of the relatively insufficient literature in quantitative CSR studies, Wang [19] constructs a CSRI for measuring corporate contributions to CSR by integrating the stakeholder theory and the three dimensions of Dow Jones Sustainability Index (DJSI). The CSRI consists of three dimensions, i.e., economic, social, and environmental, under each of which contains the interest of related stakeholders. Several operational variables are constructed to measure firm's contributions to these interest. Each data point within a variable is converted into a percentile

score. The CSRI is then computed by these scores of three dimensions. The study finds that over the period of 2001–2009, the high-scored CSR portfolio outperforms the rest of the competing portfolios, including the growth and market portfolios, except for the value portfolio. The study shows socially responsible firms outperform the other firms in the stock market. When a firm makes efforts to fulfill its social responsibility, it not only improves its social performance, but also attracts interested investors to buy and hold their stocks, thus leading to a relatively better stock performance.

Wang [29] regresses the three-dimensional CSRI on the performance measures, e.g.,  $q$  ratio, profitability, and stock return, and finds that when a firm fulfills its corporate social responsibility, the firm has a better performance in corporate governance and profitability, thus reflecting a better operating performance. Furthermore, the statistical results indicate that the fulfillment of CSR has a positive impact on firm value and stock return. This study concludes that although CSR projects may increase firm's costs and expenses, yet the benefits of engaging CSR may exceed its costs, therefore, resulting a positive impact on firm performance.

Wang et al. [30] examine the relationship between CSR and firm performance with the approach of quantile regression. Their findings imply a nonlinear relationship between CSR and firm performance, to be more specific, the effect of CSR on firm performance for a high-return firm is more significant than that for a low-return firm. Both findings are consistent with the conclusions in Refs. [22, 26–28, 31].

Wang et al. [32] explore how CSR would impact on corporate image and found that there exists a significantly positive relationship between CSR and corporate image. The implication of this study is that there are no conflicts between the goals of maximizing corporate value and fulfilling corporate social responsibility. Management should regard the implementation of CSR as corporate investments and competitive advantages, which would improve corporate image as well as firm performance.

Wang [33] applies the approach of quantile regression to investigate the relationship between corporate governance, specifically ownership structure and board composition, and CSR. Based on empirical evidence, it is found that ownership structure may have a significant impact on CSR. Furthermore, the shares owned by major stockholders, institutional investors, and management increase with the degree of CSR implementation. Of the three types of stockholders of interest, management is found to have a relatively large impact on CSR, explained by their influential power in corporate operation and reduction in agency cost. Board composition plays an important role in committing to CSR. In particular, as the number of outside directors and the shares owned by outside directors increases, firms seem to increase their contributions to CSR. Also, the evidence shows that board size has a negative impact on CSR. As board size gets larger, board members' opinions toward CSR may be diverse, thus discouraging the fulfillment of CSR.

Wang et al. [34] explore the impact of corporate governance on CSR by a panel data analysis. Based on a large set of panel data with 722 firms in the period of 2005–2011, it is found that corporate governance has nontrivial individual and time effects on CSR and that the causal relationship is statistically significant.

The preceding literature provides several important insights into the CSR research: first, from the practical perspective, CSR consists of three major dimensions, i.e., economic, social, and environmental, which is also an internationally accepted operational framework. Some studies regarding corporate governance as the fourth dimension for corporate governance are highly correlated with CSR and have now become a critical aspect to examine CSR. Second, contrast to qualitative approaches, quantitative research is yet to be documented due to data unavailability. A good example is that corporate donations are considered to be an effective indicator of corporate social performance, but donation expenses are neither disclosed in financial statements nor required to be transparent by laws. Third, of the relatively less amount of empirical studies, CSR is found to have a positive impact on firm performance, which provides a managerial implication that CSR programs as a whole are not necessarily regarded as an expense to a firm, but a profit driver instead.

#### **4. Corporate strategies in response to CSR**

As described in Ref. [23] (in Ch. 17), since regulatory pressures underpin formal institutions and normative, and cognitive pressures support informal institutions, the institution-based view sheds considerable light on gradual diffusion of the CSR movement and strategic responses of firms. According to Hoffman [35] and Peng [23], when a firm is involved with the CSR issues, firm's strategic responses tend to fall into the following four corporate strategies: (1) reactive, (2) defensive, (3) accommodative, and (4) proactive strategies.

A reactive strategy is referred to as the situation in which a firm's top management gives relatively little or no support with regard to CSR issues. When a firm takes a reactive strategy toward CSR, management is not compelled to respond to any CSR concerns. When any CSR-related problems, such as disasters and outcries, arise, defensive or denial actions are generally the frontline of response. With this strategy, the firm has neither internalized any actions nor initiated programs related to CSR. Furthermore, management has not formulated any norms or code of conducts in practice. In this situation, legal or regulatory power is therefore required to coerce firms to comply with minimum regulations. For example, in September 2015, the United States Environmental Protection Agency (EPA) issued a notice of violation of the Clean Air Act to German automaker Volkswagen Group. The agency had found that Volkswagen had intentionally programmed turbocharged direct injection (TDI) diesel engines to activate certain emission controls only during laboratory emissions testing. The programming caused the vehicles' NO<sub>x</sub> output to meet US standards during regulatory testing but emit up to 40 times more NO<sub>x</sub> in real-world driving, thus named as "Volkswagen Emissions Scandal." Volkswagen deployed this programming in about 11 million cars worldwide, and 500,000 in the United States, during model years 2009 through 2015. The management insisted on this event was simply wrongdoing by a few employees-in-charge. However, according to the authority, these emissions "defects" were fabricated ever since 2009 and thus it was hard to believe that management was totally unaware of the presence of these so-called defective devices. In the end, the firm was faced with several legal charges and more importantly lost hard-earned consumer's trust.



A defensive strategy focuses on meeting regulatory compliance. With this defensive strategy, management targets at complying with regulatory requirements so that the firm can be relieved of regulatory pressure. Also, CSR activities are considered as additional cost burdens to business operation and management's involvement in CSR is very limited. The regulatory requirements are thus at significant odds with the norms and cognitive beliefs held by the industry. A good example is that, in 1991, Japanese recycling law set industry standards to make electronic products easier to disassemble. Although Hitachi initially resisted the law, the firm eventually responded by redesigning products to simplify disassembly in order to protect its market share. In the end, the company was able to reduce the parts in its washing machines by 16% and in vacuum cleaners by 30%. These electronic products became not only easier to assemble/disassemble, but also cheaper in terms of costs of goods sold, thus providing Hitachi with a significant cost advantage.

Both the reactive and defensive strategies are considered as passive strategies, in which firms are not voluntarily engaged in CSR activities. Consequently, firms responding to CSR concern with the two strategies may make a controversial argument that excessive regulatory pressures or governmental regulations in environmental protection, food safety, or other areas may result in increasing operational cost and thus lose competitiveness to foreign competitors which are subject to less demanding regulations. However, economists generally would argue that these governmental regulations simply force firms to pay real costs that they otherwise place on others. If a firm pollutes, it is imposing a cost on the surrounding community that must either live with the pollution or pay to clean it up. By imposing a pollution tax that roughly equals the cost to the community, the firm has to account for pollution as a real cost, meaning to internalize a negative externality.

An accommodative strategy is defined that management may take a positive view toward CSR activities and thus is willing to partially participate in these activities or invest some corporate resources in them. When taking this strategy, managers may accept the fact that CSR is a fundamental corporate responsibility and thus becomes to form the mindset that CSR is legitimate and social obligations to society. For example, in 2007, Marks and Spencer determined not to purchase endangered species of fish in its famous CSR program "Plan A" by signing a contract with its seafood suppliers, which in turn led to the effect on preserving precious ocean resources.

Another corporate strategy in response to CSR is a proactive strategy, which is characterized by adopting a set of written corporate policies that includes a firm's acceptance of CSR. In this situation, CSR has legitimacy to become management's major agenda, as well as formal corporate duties in practicing CSR. Furthermore, management taking this viewpoint is willing to proactively conduct CSR programs at the expense of more current corporate profits to reach a long-term "shared value." From a CSR perspective, the firms take a proactive strategy when engaging in CSR, constantly anticipating their responsibility and endeavoring to do more than is required. For example, ice cream maker, Ben Jerry, not only has adopted recycled packaging on its products and redesigned its dairy farms to become more environment-friendly, but also commits to donate 15% of its net profits to charities and foundations.

Both the accommodative and proactive strategies are considered to be a sustainable strategy, supported by management. With this sustainable, supportive strategy, more firms nowadays are willing to voluntarily publish an annual CSR report, which embraces the strategy into corporate philosophy, mission statement, and business practices. Furthermore, firms with more social conscience also indicate willingness to participate in discussion with community groups or nongovernment organizations (NGOs) and work with these traditional “enemies.” Taking one more step, some firms taking the proactive strategy voluntarily include the global standards in CSR into their whole business practices.

As more empirical evidence has indicated a positive relationship between CSR and firm performance, invalidating the conventional view that CSR is conducted at the sacrifice of corporate profits. Instead, engaging in CSR activities can in fact lead to a better firm performance, which thus leads to a new corporate strategy-growth strategy. Put another way, committing more social responsibilities can not only provide some tangible social and environmental benefits, but also generate long-term corporate benefits, which may exceed short-term expenses. Take, for example, the International Standards Organization (ISO), which is an influential international NGO and headquartered in Switzerland. In 1996, ISO launched the certification program of ISO 14001, which encompassed the environment management system (EMS) aiming to protect worldwide environment. The EMS of ISO 14001 was a rigorous attempt for environmental protection and has become the golden standard for CSR-conscious firms. Although not required by domestic laws, many international firms, such as Toyota, Siemens, and General Motors, have not only adopted ISO 14001 standards in all their facilities worldwide, but also requested all of their major suppliers be ISO 14001 certified.

Are these firms doing this just because they take a proactive strategy? Obviously not, they are doing this to pursue long-term corporate growth by maintaining a sustaining environment. In today’s global business environment, the management of these firms has to face with multiple stakeholders and their corporate decisions have to respond to the multiple needs of the stakeholders. Since management must commit to pursue social growth and corporate growth at the same time, it is therefore logical to integrate CSR into corporate growth strategy.

## 5. Conclusion

As increasing empirical evidence finds that there exists a positive relationship between CSR and firm performance, one might wonder how CSR can generate a positive value to a firm. Business practices from successful firms shed light on several managerial implications: first, CSR activities may serve as a good marketing program to improve corporate image and thus increase sales revenues. For instance, the British retailer, Marks, and Spencer, initiated a “Plan A” campaign since 2007, aiming to change 100 things to protect the world we live in. Within 3 years of time, this new campaign has successfully boosted the firm’s sales revenues over 20%.

Second, CSR may provide encouraging motivations for product or production innovations. For example, Nike, once accused of sweatshop with the use of child labor, adopted new fabric materials made of recycled plastic for high efficient sports clothing. This new campaign

not only significantly improved corporate reputation, but also increased sales in the sports apparel market. In addition, French airliner Air France-KLM initiated a project to reduce carbon dioxide by 20% per passenger by adopting newly developed biofuel. This project has not only maintained its fuel cost at the long-term sustainable level, but also reduced in-cabin noise during the flight.

Third, CSR activities may serve for the purpose of business management. The famous US supermarket chain, Costco, paid over \$20 per hour to its employees, which exceeded the double of national average on hourly wage. In addition, the firm provided over 90% of its employees with medical benefits. With high employee's satisfaction and commitment, the firm operated with a low turnover rate less than 15%, which not only obviously reduced explicit and implicit training costs, but also significantly raised employee's productivity, leading to record high net corporate profits in 2014.

Last but not least, CSR activities may attract interested investors to maintain long-term ownership so as to enjoy long-term stock return. Wang [19] demonstrates that a portfolio including CSR stocks may empirically outperform conventional style portfolios, such as market and growth stocks, in the long run.

In conclusion, since each firm can vary in terms of corporate resources, investment size in CSR may be different. In general, large firms may have more economic resources and influence on conducting CSR activities than smaller firms. As firms continue to grow in size, more CSR activities incorporated into business practices become increasingly important. In the end, CSR should not just serve for the window-dressing purpose, yet it should be incorporated into practical business operations and then turn into a key corporate growth strategy as firms grow in size. For firms aiming to become multiple national enterprises (MNEs), the golden rule to success is crystal clear.

## Author details

George Y. Wang

Address all correspondence to: wang@soka.ac.jp

Faculty of International Liberal Arts, Soka University, Japan

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